

**DELAWARE MILITARY ACADEMY  
CHARTER SCHOOL  
(A Component Unit of the State of Delaware)  
Wilmington, Delaware**

**FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**

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November 14, 2006

Board of Directors  
Delaware Military Academy Charter School  
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities and each major fund of Delaware Military Academy Charter School (the "School"), Wilmington, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information in the fund financial statements has been derived from the School's financial statements as of and for the year ended June 30, 2005 and, in our report dated August 5, 2005, we expressed an unqualified opinion on those fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Delaware Military Academy Charter School as of June 30, 2006, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2006, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 2 through 7 and page 22, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delaware Military Academy Charter School's basic financial statements. The schedules on pages 23 - 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

BARBACANE  
THORNTON  
& COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS SECTION**

## **DELAWARE MILITARY ACADEMY CHARTER SCHOOL MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Delaware Military Academy Charter School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2006, which is the School's third full year of operation. Please read it in conjunction with the Independent Auditors' Report and the Academy's financial statements.

### **FINANCIAL HIGHLIGHTS**

The School's net assets increased by \$309,340, and general revenues accounted for \$4.1 million or 81 percent of total revenues.

The School reported net assets of \$197,179.

### **USING THIS ANNUAL FINANCIAL REPORT**

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

### **REPORTING THE SCHOOL AS A WHOLE**

#### ***The Statement of Net Assets and Statement of Activities***

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment stability and facility conditions in arriving at a conclusion regarding the overall health of the School.

### **REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS**

#### ***Fund Financial Statements***

Our analysis of the School's major funds and fund financial statements provides detailed information about the most significant funds - not the School as a whole. Some funds are required to be established by State statute, while other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Governmental Funds***

All of the Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. Activities related to capital assets, long-term debt and compensated absences are the primary reconciling items.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$197,179 at the close of the fiscal year. A comparative net assets analysis of fiscal years 2005-2006 follows:

**Table 1  
NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current and Other Assets:		
Cash and investments	\$ 680,448	\$ 226,276
Receivables – Due From other governments	-	6,957
Prepaid rent	51,282	51,282
Accounts receivable	<u>43,823</u>	<u>35,280</u>
Total Current Assets	775,553	319,795
Noncurrent Assets:		
Capital assets, net of depreciation	<u>2,918,486</u>	<u>3,031,826</u>
<b>TOTAL ASSETS</b>	<u><b>\$3,694,039</b></u>	<u><b>\$3,351,621</b></u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 9,385	\$ -
Due to State of Delaware - pension costs and uniform deposit	192,797	147,817
Accrued salaries	269,203	302,473
Note Payable	<u>8,028</u>	<u>60,515</u>
Total Current Liabilities	<u>479,413</u>	<u>510,805</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Table 1 (continued)  
NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Noncurrent Liabilities:		
Compensated Absences	52,946	24,310
Note Payable	<u>2,964,501</u>	<u>2,928,667</u>
Total Noncurrent Liabilities	<u>3,017,447</u>	<u>2,952,977</u>
<b>TOTAL LIABILITIES</b>	<u><b>3,496,860</b></u>	<u><b>3,463,782</b></u>
Net Assets:		
Invested in capital assets, net of depreciation	(54,043)	42,644
Unrestricted (Deficit)	<u>251,222</u>	<u>(154,805)</u>
<b>TOTAL NET ASSETS</b>	<u><b>\$ 197,179</b></u>	<u><b>\$ (112,161)</b></u>

**Table 2  
CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>		
General revenue:		
Charges to school districts	\$1,357,600	\$1,015,583
Payments from primary government	2,687,873	2,179,205
Earnings on cash and investments	25,433	10,202
Program Revenue:		
Operating grants and contributions	<u>931,615</u>	<u>668,826</u>
Total Revenues	<u><b>5,002,521</b></u>	<u><b>3,873,816</b></u>
<b>EXPENSES</b>		
Instructional services	2,933,648	2,531,281
Support services:		
Operation and maintenance of facilities	1,178,785	1,187,172
Transportation	328,790	259,309
Interest on debt	<u>251,958</u>	<u>190,604</u>
Total Expenses	<u><b>4,693,181</b></u>	<u><b>4,168,366</b></u>
<b>CHANGE IN NET ASSETS</b>	<u><b>\$ 309,340</b></u>	<u><b>\$ (294,550)</b></u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The increase in enrollment (509 students in fiscal year 2006 compared to 414 students in fiscal year 2005) for the School in the third full year of operations led to increased funding and expenses.

***Governmental Activities***

Net assets of the School's governmental activities increased by \$309,304, with unrestricted net assets increasing by \$406,027.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to school districts, investment earnings and state entitlements must support the net cost of the School's programs.

	<u>2006 Services</u>		<u>2005 Services</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
Governmental Activities:				
Instructional services	\$ 2,933,648	\$ 2,002,033	\$ 2,531,281	\$ 1,862,455
Support services:				
Operation and maintenance of				
Facilities	1,178,785	1,178,785	1,187,172	1,187,172
Transportation	328,790	328,790	259,309	259,309
Interest on long-term debt	<u>251,958</u>	<u>251,958</u>	<u>190,604</u>	<u>190,604</u>
Total Expenses	<u>\$ 4,693,181</u>	<u>\$ 3,761,566</u>	<u>\$ 4,168,366</u>	<u>\$ 3,499,540</u>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$3,761,566 of support.

**THE SCHOOL'S FUNDS**

The School's governmental funds (as presented on the balance sheet) as of June 30, 2006 reported a combined fund balance of \$304,168 compared to last year's total deficit of \$(130,495).

***Governmental Funds***

The School's fund balance increase is due to many factors, the most significant of which is the additional revenue received from multiple organizations that had not been received in prior years. The tables that follow assist in illustrating the financial activities and balance of governmental funds.



**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>Total Governmental Funds</u>	
	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>		
Charges to school districts	\$ 1,357,600	\$ 1,015,583
State aid	2,687,873	2,236,086
Federal aid	105,465	139,205
Earnings on cash and investments	25,433	10,202
Contributions	<u>795,627</u>	<u>472,740</u>
<b>TOTAL REVENUES</b>	<u><b>4,971,998</b></u>	<u><b>3,873,816</b></u>
<b>EXPENDITURES</b>		
Current:		
Instructional services	2,788,642	2,550,999
Operation and maintenance of facilities	963,634	903,333
Transportation	328,790	259,309
Debt service:		
Principal	16,653	-
Interest	251,958	190,604
Capital outlays:		
Equipment	94,309	98,965
Property	<u>93,349</u>	<u>772,992</u>
<b>TOTAL EXPENDITURES</b>	<u><b>4,537,335</b></u>	<u><b>4,776,202</b></u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u><b>434,663</b></u>	<u><b>(902,386)</b></u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Proceeds from financing sources	<u>-</u>	<u>772,992</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>-</u>	<u>772,992</u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>434,663</b>	<b>(129,394)</b>
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u><b>(130,495)</b></u>	<u><b>(1,101)</b></u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u><b>\$ 304,168</b></u>	<u><b>\$ (130,495)</b></u>

The increase in revenues for the year was due to the addition of students during the current fiscal year which led to the increase in revenue received from the primary government. Student enrollment increased by 95 students from 414 students in fiscal year 2005 to 509 students in fiscal year 2006.

The decrease in expenditures at the fund level is attributed primarily to a decrease in capital outlays for the School due to the completion of the construction on the second school building in order to facilitate the increase in the number of students in the prior years.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Expenditures exceeded revenues and financing proceeds during the fiscal year resulting in a \$434,663 increase in fund balances. The fund balances are still being diligently monitored during the start-up period.

**GENERAL FUND BUDGET INFORMATION**

The School's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The significant modifications occurring during the fiscal year included increases in per unit costs.

As this was the third full year of operations for the School, it will experience some difficulty in estimating certain budgetary line items. The variance in total expenditures can be attributed solely to the construction-related debt and expenditures. As the School continues into its fourth year of operations, it will continue to use historical trends based upon prior year experience and anticipated future growth.

**CAPITAL ASSETS**

The School has \$2,918,486 invested in capital assets, net of depreciation, all of which are attributed to governmental activities. Acquisitions for governmental activities totaled \$130,072 and depreciation was \$243,412. The majority of the acquisitions were for leasehold improvements to the School's two facilities at 1000 Middleboro Road, Wilmington, Delaware. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS**

Fiscal year 2006 was the third year of operation as a functioning school. The School has reached ultimate planned capacity. Planned capacity for the School is 510 students.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our fellow citizens, customers, parents, investors, potential investors and creditors with a general overview of the School's finances. If you have questions about this report or need additional financial information, contact the School's Director of Operations at (302) 998-0745.

## **BASIC FINANCIAL STATEMENTS SECTION**

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 680,448	\$ 226,276
Accounts receivable	43,823	35,280
Prepaid rent	51,282	51,282
Receivable - due from other government	-	6,957
Total Current Assets	<u>775,553</u>	<u>319,795</u>
Noncurrent Assets:		
Capital assets, net of depreciation	<u>2,918,486</u>	<u>3,031,826</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 3,694,039</b></u>	<u><b>\$ 3,351,621</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 9,385	\$ -
Accrued salaries	269,203	302,473
Due to State of Delaware - pension costs	49,899	41,631
Uniform deposit escrow	142,898	106,186
Notes payable	8,028	60,515
Total Current Liabilities	<u>479,413</u>	<u>510,805</u>
Noncurrent Liabilities:		
Compensated absences	52,946	24,310
Notes payable	<u>2,964,501</u>	<u>2,928,667</u>
Total Noncurrent Liabilities	<u>3,017,447</u>	<u>2,952,977</u>
<b>TOTAL LIABILITIES</b>	<u><b>3,496,860</b></u>	<u><b>3,463,782</b></u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	(54,043)	42,644
Unrestricted (Deficit)	<u>251,222</u>	<u>(154,805)</u>
Total Net Assets (Deficit)	<u>197,179</u>	<u>(112,161)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 3,694,039</b></u>	<u><b>\$ 3,351,621</b></u>

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services					
Support services:					
Operation and maintenance of facilities					
Transportation					
Interest on long-term debt					
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$(2,933,648)</u>	<u>\$ -</u>	<u>\$ 931,615</u>	<u>\$ -</u>	<u>\$(2,002,033)</u>
	(1,178,785)	-	-	-	(1,178,785)
	(328,790)	-	-	-	(328,790)
	(251,958)	-	-	-	(251,958)
	<u>\$(4,693,181)</u>	<u>\$ -</u>	<u>\$ 931,615</u>	<u>\$ -</u>	<u>\$(3,761,566)</u>
GENERAL REVENUES					
Charges to school districts					1,357,600
Payments from primary government					2,687,873
Earnings on cash and investments					<u>25,433</u>
TOTAL GENERAL REVENUES					<u>4,070,906</u>
CHANGE IN NET ASSETS					309,340
NET ASSETS, BEGINNING OF YEAR					(112,161)
NET ASSETS, END OF YEAR					<u>\$ 197,179</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services					
Support services:					
Operation and maintenance					
of facilities					
Transportation					
Interest on long-term debt					
TOTAL GOVERNMENTAL ACTIVITIES					
	\$ (2,531,281)	\$ -	\$ 668,826	\$ -	\$ (1,862,455)
	(1,187,172)	-	-	-	(1,187,172)
	(259,309)	-	-	-	(259,309)
	(190,604)	-	-	-	(190,604)
	<u>\$ (4,168,366)</u>	<u>\$ -</u>	<u>\$ 668,826</u>	<u>\$ -</u>	<u>(3,499,540)</u>
GENERAL REVENUES					
Charges to school districts					1,015,583
Payments from primary government					2,179,205
Earnings on cash and investments					<u>10,202</u>
TOTAL GENERAL REVENUES					<u>3,204,990</u>
CHANGE IN NET ASSETS					(294,550)
NET ASSETS, BEGINNING OF YEAR					<u>182,389</u>
NET ASSETS, END OF YEAR					<u>\$ (112,161)</u>

The accompanying notes are an integral part of these financial statements.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<u>Totals</u>	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 680,448	\$ 226,276
Accounts receivable	43,823	35,280
Prepaid rent	51,282	51,282
Receivable - other governments	<u>-</u>	<u>6,957</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 775,553</b></u>	<u><b>\$ 319,795</b></u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 9,385	\$ -
Accrued salaries	269,203	302,473
Due to State of Delaware - pension costs	49,899	41,631
Uniform deposits	<u>142,898</u>	<u>106,186</u>
<b>Total Liabilities</b>	<u><b>471,385</b></u>	<u><b>450,290</b></u>
<b>FUND BALANCES:</b>		
Reserved for encumbrances	-	6,075
Unreserved:		
General Fund (Deficit)	<u>304,168</u>	<u>(136,570)</u>
<b>Total Fund Balances (Deficit)</b>	<u><b>304,168</b></u>	<u><b>(130,495)</b></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><b>\$ 775,553</b></u>	<u><b>\$ 319,795</b></u>

The accompanying notes are an integral part of these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS  
JUNE 30, 2006

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 304,168
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.

2,918,486

Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Those liabilities consist of:

Compensated absences	\$ (52,946)
Notes payable	<u>(2,972,529)</u>

(3,025,475)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES

\$ 197,179

The accompanying notes are an integral part of these financial statements.



**DELAWARE MILITARY ACADEMY CHARTER SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Totals</u>	
	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>		
Charges to school districts	\$1,357,600	\$1,015,583
State aid	2,687,873	2,236,086
Federal aid	105,465	139,205
Earnings on cash and investments	25,433	10,202
Contributions	<u>795,627</u>	<u>472,740</u>
<b>TOTAL REVENUES</b>	<u><b>4,971,998</b></u>	<u><b>3,873,816</b></u>
<b>EXPENDITURES</b>		
Current:		
Instructional services	2,788,642	2,550,999
Operation and maintenance of facilities	963,634	903,333
Transportation	328,790	259,309
Capital Outlays:		
Equipment	94,309	98,965
Property	93,349	772,992
Debt Service:		
Principal	16,653	-
Interest	<u>251,958</u>	<u>190,604</u>
<b>TOTAL EXPENDITURES</b>	<u><b>4,537,335</b></u>	<u><b>4,776,202</b></u>
<b>EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES</b>	<u><b>434,663</b></u>	<u><b>(902,386)</b></u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from financing	<u>-</u>	<u>772,992</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u><b>-</b></u>	<u><b>772,992</b></u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>434,663</b>	<b>(129,394)</b>
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u><b>(130,495)</b></u>	<u><b>(1,101)</b></u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u><b>\$ 304,168</b></u>	<u><b>\$ (130,495)</b></u>

The accompanying notes are an integral part of these financial statements.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ 434,663**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 130,072	
Depreciation expense	<u>(243,412)</u>	(113,340)

The issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Payment of note principal	16,653
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	<u>(28,636)</u>
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**CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES** **\$ 309,340**

The accompanying notes are an integral part of these financial statements.

## DELAWARE MILITARY ACADEMY CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Description of the Charter School

Delaware Military Academy Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

Delaware Military Academy Charter School was established in November 2002 but did not begin a regular school year until September 2003. The year 2006 was the third full year of operations, which was primarily funded with state and local funding based upon student enrollment.

The financial statements of Delaware Military Academy Charter School have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Delaware Military Academy Charter School (the "School") are described below.

##### Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

##### Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

**Government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

Charges to the school districts, state appropriations and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Amounts reported or to be reported as program revenues include 1) charges to students for special fees, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

Cash and Cash Equivalents

The School's cash and cash equivalents are considered to be cash on hand and demand deposits.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital Assets

Capital assets, which include leasehold improvements, and furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Furniture and fixtures	10 years
Leasehold improvements	15 years
Equipment	7 years

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

**Vacation** - Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

**Sick Leave** - Sick leave allowances are as follows: teachers shall be allowed eight days of sick leave per year and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 90 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2005 basic financial statements to be comparative with the current year presentation.

# DELAWARE MILITARY ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2006, the School has a cash equivalent balance of \$680,448, all of which is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware. All investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

### NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Leasehold improvements	3,133,921	93,349	-	3,227,270
Equipment	101,204	36,723	-	137,927
Furniture and fixtures	<u>112,568</u>	-	-	<u>112,568</u>
Total Capital Assets Being Depreciated	<u>3,347,693</u>	<u>130,072</u>	-	<u>3,477,765</u>
Accumulated depreciation:				
Leasehold improvements	(274,190)	(215,151)	-	(489,341)
Equipment and furniture	<u>(41,677)</u>	<u>(28,261)</u>	-	<u>(69,938)</u>
Total accumulated depreciation	<u>(315,867)</u>	<u>(243,412)</u>	-	<u>(559,279)</u>
Total Capital Assets Being Depreciated, Net	<u>3,031,826</u>	<u>(113,340)</u>	-	<u>2,918,486</u>
Governmental Activities Capital Assets, Net	<u>\$3,031,826</u>	<u>\$ (113,340)</u>	<u>\$ -</u>	<u>\$2,918,486</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional activities	\$ 28,261
Operation and maintenance of facilities	<u>215,151</u>
	<u>\$243,412</u>

### NOTE 4 LEASING ARRANGEMENTS

The School leases its facility from Trison Builders under operating lease arrangements expiring in August of 2018. Total rent expense for the fiscal year ended June 30, 2006 was \$615,396.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LEASING ARRANGEMENTS (cont'd)

Future minimum lease payments under operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Facility #1</u>	<u>Facility #2</u>	<u>Total</u>
2007	\$ 302,052	\$ 313,344	\$ 615,396
2008	302,052	313,344	615,396
2009	302,052	313,344	615,396
2010	302,052	313,344	615,396
2011-2015	1,510,260	1,566,720	3,076,980
2016-2019	<u>956,498</u>	<u>992,256</u>	<u>1,948,754</u>
Minimum Future Rental Payments Required	<u>\$3,674,966</u>	<u>\$3,812,352</u>	<u>\$7,487,318</u>

NOTE 5 LONG-TERM DEBT

In June 2004, Delaware Military Academy Charter School obtained a loan in the amount of \$1,750,000 for the purposes of funding the fit-out of the new building. Interest on the new loan is paid monthly at a variable rate plus one percent. As of June 30, 2006, the rate charged was nine percent. The loan matures on May 31, 2009 when a lump sum principal payment is due to settle the loan. As of June 30, 2006, \$1,722,524 of this loan has been drawn down.

An analysis of debt service requirements to maturity on these obligations is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 8,028	\$ 158,820	\$ 166,848
2008	8,028	158,820	166,848
2009	<u>1,706,473</u>	<u>145,585</u>	<u>1,852,058</u>
	<u>\$1,722,529</u>	<u>\$ 463,225</u>	<u>\$2,185,754</u>

In June 2004, Delaware Military Academy Charter School obtained a loan in the amount of \$1,250,000 for the purposes of helping to fund the fit-out of the new building and for repaying the balance of the April 2003 construction loan in the amount of \$850,000. Interest on the new loan is paid monthly at a variable rate plus .05 percent. As of June 30, 2006, the rate charged was 8.50 percent. The loan is an interest-only loan until maturity date. The loan matures on May 31, 2009.

The School is required to maintain a minimum fund balance and cash flow coverage as outlined in its loan covenant. As of June 30, 2006, the School did not meet the financial covenants in its loan agreement with Wilmington Savings Fund Society, FSB. However, the School has received a letter of waiver for these covenant violations as of the fiscal year ended June 30, 2006.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

**NOTE 5      LONG-TERM DEBT (cont'd)**

An analysis of debt service requirements to maturity on these obligations is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ 106,250	\$ 106,250
2008	-	106,250	106,250
2009	<u>1,250,000</u>	<u>106,250</u>	<u>1,356,250</u>
	<u>\$1,250,000</u>	<u>\$ 318,750</u>	<u>\$1,568,750</u>

A schedule of changes in debt is as follows:

	<u>Beginning</u> <u>7/01/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u> <u>6/30/2006</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
Governmental activities:					
Construction loan	<u>\$2,989,182</u>	<u>\$ -</u>	<u>\$ 16,653</u>	<u>\$2,972,529</u>	<u>\$ 8,028</u>

**NOTE 6      PENSION PLAN**

**Plan Description**

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan, which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
  - a. 15 years service - age 55
  - b. 25 years service - any age
- Service retirement:
  - a. 15 years service - age 60
  - b. 30 years service - any age
  - c. 5 years service - age 62



## DELAWARE MILITARY ACADEMY CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 6 PENSION PLAN (cont'd)

- Disability retirement:
  - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

#### Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's pension expense for the years ended June 30, 2006, 2005 and 2004 was \$281,004, \$229,291 and \$140,127, respectively.

#### NOTE 7 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in the past year.

#### NOTE 8 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

#### Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

#### NOTE 9 RELATED PARTY TRANSACTIONS

Delaware Military Academy Charter School rents the School's facilities from Trison Building Concepts. The owner of Trison Building Concepts is the brother-in-law of the Chief Financial Officer of Delaware Military Academy Charter School.

## **REQUIRED SUPPLEMENTARY INFORMATION SECTION**

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES:				
Charges to school districts	\$1,301,339	\$1,345,014	\$1,357,600	\$ 12,586
State aid	2,950,000	2,700,272	2,687,873	(12,399)
Federal aid	-	-	105,465	105,465
Earning on cash and investments	-	-	25,433	25,433
Contributions	292,719	278,827	795,627	516,800
TOTAL REVENUES	<u>4,544,058</u>	<u>4,324,113</u>	<u>4,971,998</u>	<u>647,885</u>
EXPENDITURES				
Current:				
Salaries	1,900,000	1,900,000	1,888,134	11,866
Employment costs	796,830	796,830	705,350	91,480
Travel	-	2,000	5,711	(3,711)
Contractual services	76,200	40,600	218,064	(177,464)
Public utility services	95,600	95,600	127,716	(32,116)
Insurance	20,000	19,000	33,051	(14,051)
Transportation - buses	320,000	320,000	328,790	(8,790)
Land/building/facilities	660,390	682,389	615,396	66,993
Repairs and maintenance	50,000	60,000	42,143	17,857
Supplies and materials	254,400	134,310	115,029	19,281
Computer/word processing software	-	-	1,682	(1,682)
Capital Outlays:				
Equipment	5,500	75,000	94,309	(19,309)
Property	-	-	93,349	(93,349)
Debt Service:				
Principal	125,138	125,138	16,653	108,485
Interest	240,000	240,000	251,958	(11,958)
TOTAL EXPENDITURES	<u>4,544,058</u>	<u>4,490,867</u>	<u>4,537,335</u>	<u>(46,468)</u>
NET CHANGE IN FUND BALANCE	-	(166,754)	434,663	601,417
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	-	-	(130,495)	(130,495)
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ -</u>	<u>\$ (166,754)</u>	<u>\$ 304,168</u>	<u>\$ 470,922</u>

NOTE: The School's budget is presented on the modified accrual basis of accounting.

## **SUPPLEMENTARY SECTION**

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
COMBINING BALANCE SHEET - GENERAL FUND  
JUNE 30, 2006

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash and investments	\$ 21,397	\$ 659,051	\$ -	\$ 680,448
Accounts receivable	-	43,823	-	43,823
Prepaid rent	<u>-</u>	<u>51,282</u>	<u>-</u>	<u>51,282</u>
<b>TOTAL ASSETS</b>	<u>\$ 21,397</u>	<u>\$ 754,156</u>	<u>\$ -</u>	<u>\$ 775,553</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 2,585	\$ 6,800	\$ -	\$ 9,385
Accrued salaries	-	269,203	-	269,203
Due to State of Delaware - pension costs	-	49,899	-	49,899
Uniform deposits	<u>-</u>	<u>142,898</u>	<u>-</u>	<u>142,898</u>
Total Liabilities	<u>2,585</u>	<u>468,800</u>	<u>-</u>	<u>471,385</u>
<b>FUND BALANCES:</b>				
Unreserved:				
General fund	<u>18,812</u>	<u>285,356</u>	<u>-</u>	<u>304,168</u>
Total Fund Balances	<u>18,812</u>	<u>285,356</u>	<u>-</u>	<u>304,168</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 21,397</u>	<u>\$ 754,156</u>	<u>\$ -</u>	<u>\$ 775,553</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
<b>REVENUES</b>				
Charges to school districts	\$ -	\$1,357,600	\$ -	\$1,357,600
State aid	2,687,873	-	-	2,687,873
Federal aid	-	-	105,465	105,465
Earning on cash and investments	-	25,433	-	25,433
Contributions	-	<u>795,627</u>	-	<u>795,627</u>
<b>TOTAL REVENUES</b>	<u>2,687,873</u>	<u>2,178,660</u>	<u>105,465</u>	<u>4,971,998</u>
<b>EXPENDITURES</b>				
Current:				
Instructional services	2,311,950	371,227	105,465	2,788,642
Operation and maintenance of facilities	292,704	670,930	-	963,634
Transportation	94,398	234,392	-	328,790
Capital Outlays:				
Equipment	1,989	92,320	-	94,309
Property	-	93,349	-	93,349
Debt service:				
Principal	-	16,653	-	16,653
Interest	-	<u>251,958</u>	-	<u>251,958</u>
<b>TOTAL EXPENDITURES</b>	<u>2,701,041</u>	<u>1,730,829</u>	<u>105,465</u>	<u>4,537,335</u>
<b>NET CHANGE IN FUND BALANCES</b>	(13,168)	447,831	-	434,663
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u>31,980</u>	<u>(162,475)</u>	<u>-</u>	<u>(130,495)</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 18,812</u>	<u>\$ 285,356</u>	<u>\$ -</u>	<u>\$ 304,168</u>

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

EXPENDITURES

Current:

Salaries	\$ 1,888,134
Employment costs	685,994
Travel	5,711
Contractual services	74,418
Communications	9,308
Public utility services	127,716
Insurance	33,051
Transportation	328,790
Land/building/facilities	615,396
Repairs and maintenance	42,143
Other contractual services	143,646
Supplies and materials	40,096
Operating supplies	74,933
Tuition reimbursements	10,048
Computer/word processing software	1,682

Capital Outlays:

Equipment	94,309
Property	93,349

Debt Service:

Principal	16,653
Interest	<u>251,958</u>

TOTAL EXPENDITURES	<u>\$4,537,335</u>
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Dover, Delaware  
800.355.8210  
Media, Pennsylvania  
610.565.5222

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

202 Bancroft Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
302.478.8940  
FAX: 302.478.0133  
www.btcpa.com  
info@btcpa.com

November 14, 2006

Board of Directors  
Delaware Military Academy Charter School  
Wilmington, Delaware

We have audited the financial statements of the governmental activities and each major fund of Delaware Military Academy Charter School, Wilmington, Delaware as of and for the year ended June 30, 2006 and have issued our report thereon dated November 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Delaware Military Academy Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Delaware Military Academy Charter School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and recommendations as item #05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Delaware Military Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a



Board of Directors  
Delaware Military Academy Charter School

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

SUPPORTING DOCUMENTATION - CASH RECEIPTS

03-5 Finding

During our review of cash receipts, we noted that not all receipts listed on the deposit tickets could be traced to a receipt. We further noted that a staff member was not performing a reconciliation of daily receipts to the general ledger.

Recommendation

We recommended that the Charter School implement procedures so that proper documentation is maintained for all receipts received in cash. One way to ensure proper receipts are given is the use of a carbon copy receipting book. We further recommended that the cash receipts be reconciled on a monthly basis.

Status

During our current year audit, we noted that all receipts listed could be traced to a supporting receipt. This finding is no longer applicable.

DETAILED PROPERTY RECORDS

03-6 Finding

During our prior year audits, we noted that the Charter School does not maintain accurate data for all owned capital assets. The preparation of detailed property records aids in the accounting for property disposals, substantiates insurance claims for lost or damaged items, provides information for proper filing of income and property tax returns, and provides controls to safeguard the assets.

Recommendation

We recommended a written procedure statement that would require the following:

- A detailed property record for each asset.
- A property identification number to be assigned and affixed to each asset.
- A capitalization policy under which minor disbursements within a specified dollar amount would be immediately charged to operations.

At a minimum, the detailed property records should include the following information:

- Description, asset number and location.
- Acquisition cost and date of acquisition.
- Assigned life and method of depreciation.
- Depreciation taken on an annual basis with accumulation thereof.

## DELAWARE MILITARY ACADEMY CHARTER SCHOOL

### SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

#### STATUS OF PRIOR YEAR FINDINGS

We further recommended that a physical count of property should be periodically taken and compared to the items carried on the detailed subsidiary records of property and equipment. Such physical counts will help to detect the loss or unauthorized use of valuable property.

##### Status

During our current year audit, we noted that the School had compiled a listing of assets held at year end. We further noted that Delaware Military Academy has adopted a formal capitalization policy applicable to the size of the School according to the recommendation from the prior year. This finding is no longer applicable.

#### FINANCIAL COVENANTS

##### 05-1 Finding

During our prior year audit, we noted that the School did not meet the financial covenants in its loan agreement with Wilmington Savings Fund Society, FSB. During the term of the loan, the School is required to maintain at all times the following covenants:

- Minimum fund balance of \$250,000 as of June 30, 2005 and an increase by 50 percent of net surplus as of June 30, 2006.
- Minimum cash flow coverage ratio of 1.10:1, effective June 30, 2006.

The School did not meet either covenant as of June 30, 2006.

##### Recommendation

We recommended that the School develop a strategy to meet the above-listed covenants.

##### Status

The School did not meet the above covenants as of June 30, 2006.

##### Corrective Action Plan

The School has requested and has received relief from the WSFS Bank covenants as described above for the year ended June 30, 2006. This issue has been discussed with a representative of WSFS Bank, who understands the combinations of facts that preclude the School's ability to meet the covenants for this reporting period. The bank has issued a waiver letter to relieve the School of this requirement for this year.

#### CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.